

6829

SECRET104-25
P 2: 45DEPARTMENT OF STATE
WASHINGTON

November 24, 1981

MEMORANDUM FOR: THE PRESIDENT

FROM: William P. Clark, Acting *WR*SUBJECT: Nonproliferation Considerations and the Need
for Additional Export-Import Bank Financing
for Taiwan Nuclear Power Plants 7 and 8

Taiwan is now evaluating bids for the construction of its next two nuclear power reactors. Inadequate financing now offered by the U.S. Ex-Im Bank (\$268 million at 10.75 per cent interest) makes it likely that Taiwan will select the French vendor, Framatome, which has provided an extremely generous financing package (as much as \$1.5 billion at 7.75 per cent interest). Once Taiwan has begun to buy French facilities, economic, political, and technical pressure may make it reluctant to purchase U.S. reactors in the future.

In the mid-1970s, Taiwan was found to be engaged in some nuclear weapons research and development. Under U.S. pressure, Taiwan agreed to stop its activities in a 1977 Secret Agreement. Some in Taiwan now are pushing to remove or modify the 1977 restrictions, and see nuclear ties to France as contributing to that goal. Thus, it is very important that a U.S. vendor be selected because a strong U.S. influence and presence, rather than a growing French role as Taiwan's nuclear supplier, is vital to U.S. nonproliferation objectives vis-a-vis Taiwan.

RECOMMENDATION

I urge you to direct Bill Draper to greatly improve Ex-Im Bank's financial package in order to enhance chances for U.S. vendors. Under an agreement we have with the FRG relating to safeguards arrangements and a common line on financing, we will have to consult with the Germans before making a change in our financing. I suggest that you direct Bill Draper to make the following offer: 75 per cent coverage for the U.S.-supplied components for Taipower 7 and 8 at 10.75 per cent interest. This would require Ex-Im to break its recent policy of offering new credit only at its new 12 per cent interest rate. This would cost Ex-Im about \$1.5 billion (approximately matching the French in amount, if not interest rate), which could be charged against Ex-Im lending authority over two or more years.

Approve _____

Disapprove _____

State Dept. review completed

SECRET